**U.S. Individual Seller of CFC - Non-QFC and 338(g) Election**

**Initial Structure**
- **Seller (U.S. Individual)**
  - FMV = 1,100
  - Basis = 100
- **Target CFC (Foreign)**
  - FMV of Target assets = 1,100
  - Tax basis of Target assets = 450
  - E&P = 350
  - Sec. 1248 amount = 200
  - (Pre-CFC E&P of 150)
  - Taxes = 150 (30% effective tax rate)

**Sale of Target**
- **Cash of 1,100**
- **Target CFC (Foreign)**
  - **Seller (U.S. Individual)**
  - **Buyer (U.S. or foreign)**
  - **100% of Target Stock**

**Ending Point**
- **Cash**
- **Seller (U.S. Individual)**
  - **Buyer (U.S. or foreign)**
- **Corporate-level gain = 650**
- **Shareholder-level gain = 1,000**
- **1248 Dividend = 850**
- **Capital Gain = 150**
- **Net U.S. tax due = 321**

**Assumptions**
1. All amounts in U.S. dollars
2. Capital gains taxed at 15%
3. Foreign dividend is taxed at 35% [Target CFC is **NOT** a qualified foreign corp. - see Sec. 1(h)(11)(C) and Notice 2003-69]
4. Seller has no other income
5. No foreign taxes are paid on the sale
6. No Subpart F income triggered on 338 election

**Section 902 deemed paid foreign taxes**
- Not applicable to individual shareholders

**Foreign Tax Credit limitation**
- Not applicable (no foreign taxes paid or deemed paid)

**Worldwide Income Excluding Gross-up = 1,000**
- Tax on section 1248 gain = 298 (850 X 35%)
- Tax on capital gain = 23 (150 X 15%)
- Total Tentative U.S. tax = 321

- Tentative U.S. tax = 321
- Less: Lesser of foreign taxes deemed paid or FTC limitation = --
- Net U.S. tax due = 321

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